

Message Text

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PAGE 01 ROME 16048 051828Z

44

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 EURE-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

NSC-05 SS-15 CEA-01 /090 W
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FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 4010

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

USDEL MTN GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, EC, IT

SUBJ: ITALIAN PERFORMANCE UNDER TERMS OF EC MEDIUM-TERM CREDIT

PASS TREASURY AND FRB

SUMMARY. ITALIAN PERFORMANCE UNDER TERMS OF EC MEDIUM-TERM CREDIT HAS BEEN AS GOOD, OR BETTER THAN EXPECTED, AS REGARDS BALANCE OF PAYMENTS AND PRICE INFLATION. ALTHOUGH TOTAL DOMESTIC CREDIT EXPANSION HAS BEEN WITHIN EC CEILING TO DATE, SUB-CEILING ON 1975 CREDIT TO TREASURY WILL PROBABLY BE GREATLY EXCEEDED. END SUMMARY.

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PAGE 02 ROME 16048 051828Z

1. EC DELEGATION VISITED ITALY DURING WEEK OF OCTOBER 27-31 TO DISCUSS ITALIAN PERFORMANCE UNDER TERMS OF EC MEDIUM-TERM CREDIT AGREEMENT. DR. GIOVANNI MAGNIFICO, CHIEF OF INTERNATIONAL ECONOMIC COOPERATION SERVICE OF BANK OF ITALY, AND TREASURY MINISTRY DIRECTOR GENERAL SILVANO PALUMBO WERE INTERLOCUTORS ON ITALIAN SIDE. DR. MAGNIFICO DE-BRIEFED EMBOFF ON NOVEMBER 3.

2. TOTAL DOMESTIC CREDIT EXPANSION: DURING APRIL-JUNE QUARTER OF APRIL 1975-MARCH 1976 CREDIT CONTROL YEAR, TOTAL DOMESTIC CREDIT EXPANSION WAS 6,024 MILLION LIRE, AGAINST FIRST QUARTER CREDIT LIMIT OF 6,600 BILLION LIRE. DURING FIRST SEVEN MONTHS OF CALENDAR YEAR, CREDIT TO TREASURY TOTALLED 6,712 BILLION LIRE, AGAINST CY 1975 SUB-CEILING OF 8,000 BILLION LIRE. (THERE ARE NO QUARTERLY LIMITS ON TREASURY SUB-CEILING.) DR. MAGNIFICO THOUGHT THAT ITALY MIGHT SLIGHTLY EXCEED TOTAL CREDIT EXPANSION CEILING ON CREDIT TO PUBLIC SECTOR DURING CY 1975. TOTAL SUCH CREDIT FOR 1975 COULD REACH 11,000 BILLION LIRE, AGAINST 8,000 BILLION LIRE CEILING. SIMILARLY, CASH BUDGET DEFICIT OF PUBLIC SECTOR TO BE FINANCED IN 1976 WOULD, NO DOUBT, EXCEED EVEN THIS HIGH FIGURE. TO SOME EXTENT, POOR CASH BUDGET PERFORMANCE REFLECTED ADVERSE EFFECTS ON TAX RECEIPTS AND BUDGET EXPENDITURES DUE TO ECONOMIC RECESSION. IN ANY CASE, ITALIANS ASSURED EC OFFICIALS THAT IT WAS CLEARLY IN ITALY'S INTEREST TO TAKE MEASURES TO REDUCE THESE DEFICITS, QUITE APART FROM ANY FORMAL COMMITMENT TO EC.

3. BALANCE OF PAYMENTS: GOAL OF ACHIEVING NON-OIL TRADE SURPLUS IN 1975 OF \$1 BILLION WOULD PRESENT NO PROBLEM. (DURING FIRST HALF OF 1975 ITALY'S NON-OIL TRADE BALANCE WAS ALREADY IN SURPLUS BY \$2 BILLION.)

4. PRICE PERFORMANCE: MAGNIFICO SAID THAT RATE OF PRICE INFLATION IN ITALY HAD DECELERATED SIGNIFICANTLY DURING 1975 (SEPTEMBER 1975 COST OF LIVING INDEX WAS UP ONLY 12.7 PERCENT OVER SEPTEMBER 1974, WHILE SEPTEMBER 1974 HAD BEEN UP 24.6 PERCENT ABOVE SEPTEMBER 1973). IN LAST THREE MONTHS MONTHLY INCREASE HAD AVERAGED ONLY ABOUT 0.6 PERCENT. CALINGAERT
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PAGE 03 ROME 16048 051828Z

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Message Attributes

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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
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